Consolidated Financial Statements

Icahn School of Medicine at Mount Sinai
Years Ended December 31, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Icahn School of Medicine at Mount Sinai

Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

Contents

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Report of Independent Auditors

The Board of Trustees
Icahn School of Medicine at Mount Sinai

We have audited the accompanying consolidated financial statements of the Icahn School of Medicine at Mount Sinai, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Icahn School of Medicine at Mount Sinai at December 31, 2013 and 2012, and the consolidated results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 28, 2014

Icahn School of Medicine at Mount Sinai

Consolidated Statements of Financial Position
(In Thousands)

	December 31 2013	December 31 2012
Assets		
Cash and cash equivalents	**$ 79,102**	$ 82,894
Patient accounts receivable, less allowance for doubtful accounts of $50,453 and $45,454 in 2013 and 2012, respectively	**69,867**	69,230
Due from New York City Health and Hospitals Corporation	**7,365**	10,119
Loans receivable:		
Employees, less allowances for uncollectibles of $285 in 2013 and 2012	**59,022**	53,585
Students	**17,693**	17,729
Pledges receivable, net	**130,707**	118,207
Other assets	**29,088**	21,485
Assets limited as to use under debt financing arrangements	**91,783**	111,900
Professional liabilities insurance recoveries receivable	**130,870**	148,553
Investments, including permanently restricted investments of $352,820 and $338,346 in 2013 and 2012, respectively	**718,780**	660,690
Property, plant, and equipment, net (including net deferred financing charges)	**949,649**	915,430
Total assets	**$ 2,283,926**	$ 2,209,822
Liabilities and net assets		
Accounts payable and accrued expenses	**$ 47,917**	$ 58,638
Accrued construction liabilities	**5,322**	9,765
Accrued salaries, wages, and related liabilities	**57,538**	43,735
Accrued interest payable	**15,567**	15,961
Deferred revenue and refundable advances	**57,032**	60,551
Due to related organizations, net	**127,567**	100,577
Federal loan capital advances	**4,747**	4,747
Employee relocation loan program	**49,668**	44,160
Postretirement health benefit obligations	**11,358**	12,965
Professional liabilities	**130,870**	148,553
Long-term debt	**647,083**	669,936
Total liabilities	**1,154,669**	1,169,588
Commitments and contingencies		
Net assets:		
Unrestricted	**393,291**	362,352
Temporarily restricted	**357,470**	315,350
Permanently restricted	**378,496**	362,532
Total net assets	**1,129,257**	1,040,234
Total liabilities and net assets	**$ 2,283,926**	$ 2,209,822

See accompanying notes

Icahn School of Medicine at Mount Sinai

Consolidated Statement of Activities
(In Thousands)

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, support and reclassifications:				
Net patient care services	$ 598,069	$ –	$ –	$ 598,069
Federal grants and contracts	277,744	–	–	277,744
Private gifts, grants, and contracts	137,670	55,934	15,964	209,568
New York City Health and Hospitals Corporation	203,031	–	–	203,031
The Mount Sinai Hospital CARTS transfer	177,588	783	–	178,371
Investment income allocated to operations	33,482	5,425	–	38,907
Royalty revenue	42,190	–	–	42,190
Tuition and fees	27,305	–	–	27,305
Other support	50,239	–	–	50,239
	1,547,318	62,142	15,964	1,625,424
Net assets released from restrictions	45,803	(45,803)	–	–
Total revenue, gains, support and reclassifications	1,593,121	16,339	15,964	1,625,424
Expenses:				
Program services:				
Patient care services	806,102	–	–	806,102
Sponsored research	250,925	–	–	250,925
Basic and clinical sciences	251,862	–	–	251,862
Scholarships	3,354	–	–	3,354
Total program services	1,312,243	–	–	1,312,243
Support services (management and general):				
General administration and support services	280,761	–	–	280,761
Total expenses	1,593,004	–	–	1,593,004
Increase in net assets before investment return earned greater than amounts allocated to operations and equity loss from related party	117	16,339	15,964	32,420
Investment return earned greater than amounts allocated to operations	38,928	25,781	–	64,709
Equity loss from related party	(8,106)	–	–	(8,106)
Increase in net assets	30,939	42,120	15,964	89,023
Net assets at beginning of year	362,352	315,350	362,532	1,040,234
Net assets at end of year	$ 393,291	$ 357,470	$ 378,496	$ 1,129,257

See accompanying notes.

Icahn School of Medicine at Mount Sinai

Consolidated Statement of Activities
(In Thousands)

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, support and reclassifications:				
Net patient care services	$ 580,552	$ –	$ –	$ 580,552
Federal grants and contracts	270,697	–	–	270,697
Private gifts, grants, and contracts	120,565	63,150	12,303	196,018
New York City Health and Hospitals Corporation	202,378	–	–	202,378
The Mount Sinai Hospital CARTS transfer	153,883	646	–	154,529
Investment income allocated to operations	31,506	5,153	–	36,659
Royalty revenue	79,985	–	–	79,985
Tuition and fees	26,377	–	–	26,377
Other support	30,337	–	–	30,337
	1,496,280	68,949	12,303	1,577,532
Net assets released from restrictions	5,416	(5,416)	–	–
Total revenue, gains, support and reclassifications	1,501,696	63,533	12,303	1,577,532
Expenses:				
Program services:				
Patient care services	749,095	–	–	749,095
Sponsored research	260,258	–	–	260,258
Basic and clinical sciences	239,482	–	–	239,482
Scholarships	3,170	–	–	3,170
Total program services	1,252,005	–	–	1,252,005
Support services (management and general):				
General administration and support services	240,736	–	–	240,736
Total expenses	1,492,741	–	–	1,492,741
Increase in net assets before investment return earned greater than amounts allocated to operations and distributions from related parties	8,955	63,533	12,303	84,791
Investment return earned greater than amounts allocated to operations	21,255	13,084	–	34,339
Distributions from related parties	147	–	–	147
Increase in net assets	30,357	76,617	12,303	119,277
Net assets at beginning of year	331,995	238,733	350,229	920,957
Net assets at end of year	$ 362,352	$ 315,350	$ 362,532	$ 1,040,234

See accompanying notes.

Icahn School of Medicine at Mount Sinai

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2013	**2012**
Operating activities		
Increase in net assets	**$ 89,023**	$ 119,277
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**69,205**	56,367
Amortization of bond discount and premium, net	**(1,336)**	(1,496)
Contributions to permanently restricted net assets	**(15,964)**	(12,303)
Equity loss from related party	**8,106**	–
Change in net unrealized gains and losses on investments	**(70,582)**	(37,918)
Changes in operating assets and liabilities:		
Pledges receivable	**(12,500)**	(13,007)
Patient accounts receivable, net	**(637)**	(13,562)
Due to related organizations, net	**18,884**	(25,179)
Accounts payable and accrued expenses	**(15,164)**	1,110
Accrued salaries, wages and related liabilities	**13,803**	8,607
Employee relocation loan program	**5,508**	10,894
Net change in other operating assets and liabilities	**(10,369)**	(10,883)
Net cash provided by operating activities	**77,977**	81,907
Investing activities		
Net increase in loans receivable	**(5,401)**	(12,634)
Investments in fixed assets and projects in process	**(103,424)**	(147,999)
Net decrease (increase) in investments	**12,492**	(3,346)
Decrease in assets limited as to use under debt financing arrangements	**20,117**	18,447
Net cash used in investing activities	**(76,216)**	(145,532)
Financing activities		
Contributions to permanently restricted net assets	**15,964**	12,303
Proceeds from tax-exempt leasing program	**–**	27,610
Principal payments on long-term debt and capital lease obligations	**(21,517)**	(15,374)
Net cash (used in) provided by financing activities	**(5,553)**	24,539
Net decrease in cash and cash equivalents	**(3,792)**	(39,086)
Cash and cash equivalents at beginning of year	**82,894**	121,980
Cash and cash equivalents at end of year	**$ 79,102**	$ 82,894
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	**$ 32,236**	$ 24,684

See accompanying notes.

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The Icahn School of Medicine at Mount Sinai (the School) is a teaching and research institution that educates physicians, biomedical scientists and medical students for careers in the practice of medicine, the delivery of health care and the pursuit of medical research. It grants both MD and PhD degrees. The School is closely affiliated with The Mount Sinai Hospital (the Hospital) and its affiliates, although the School is managed separately and is a separate legal entity. The School and the Hospital share a four-block area campus on the Upper East Side of Manhattan. The accompanying consolidated financial statements include the accounts of the School and Mount Sinai Children's Center Foundation, Inc. (CCF), a not-for-profit organization formed in 1989, of which the School is the sole member, Mount Sinai Care, LLC (ACO), organized for the purpose of and operated as an accountable care organization, of which the School is the sole member, the Mitral Foundation, a not-for-profit organization formed in 2009, and Mount Sinai Foundation for Science, Health, and Empowerment (the Foundation), a not-for-profit organization formed in 2013.

On September 30, 2013, the School, the Hospital and The Mount Sinai Medical Center, Inc. (the Medical Center, and together with the School and the Hospital, the Mount Sinai Entities) consummated a transaction pursuant to which the Mount Sinai Entities and Beth Israel Medical Center (BIMC), The St. Luke's-Roosevelt Hospital Center (SLR), and the New York Eye and Ear Infirmary (NYEEI) came together to create the Mount Sinai Health System, an integrated health care system and academic medical center (the Transaction). Pursuant to the Transaction, two new not-for-profit entities were formed: Mount Sinai Health System, Inc. (MSHS) and Mount Sinai Hospitals Group, Inc. (MSHG). MSHG was formed to be the member of the Hospital, BIMC, SLR, and NYEEI. MSHS was formed to be the member of MSHG, the School and Medical Center.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the accompanying consolidated financial statements, estimates principally relate to the valuation of net accounts receivable, estimated professional liabilities and related insurance recoveries receivable and the carrying value of alternative investments. Management believes that the amounts recorded based on estimates and assumptions are reasonable and any

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

differences between estimates and actual should not have a material effect on the School's consolidated financial position.

Related Organizations

Transactions between the School and its related organizations, relating principally to the sharing of certain facilities, equipment and personnel are accounted for on the basis of allocated cost. Amounts due to or from related organizations are currently receivable or payable and do not bear interest. All intercompany transactions and balances with CCF, the ACO, the Foundation and the Mitral Foundation have been eliminated in consolidation.

Summarized financial information for CCF is as follows (in thousands):

	December 31	
	2013	**2012**
Total assets	**$ 1,068**	$ 1,141
Net assets	**$ 1,068**	$ 1,141
	Year Ended December 31	
	2013	**2012**
Total revenue	**$ 470**	$ 773
Total expenses	**543**	3,695
Decrease in net assets	**$ (73)**	$ (2,922)

Cash and Cash Equivalents

The School considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its long-term investment portfolio and assets limited as to use under debt financing arrangements, to be cash equivalents.

The School has balances in financial institutions that exceed Federal depositing insurance limits. Management does not believe the credit risk related to these deposits to be significant.

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable/Allowance for Doubtful Accounts

Patient accounts receivable result from the health care services provided by the School's faculty practices. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

The School grants credit without collateral to its patients, most of whom are insured under third-party agreements. The significant concentrations of accounts receivable for services to patients include:

	December 31	
	2013	**2012**
Medicare	**18%**	18%
Medicaid	**15**	15
Managed care and commercial	**61**	60
Other	**6**	7
	100%	100%

Approximately 39% and 35% of the School's net patient care services revenue was from Medicare and Medicaid programs in 2013 and 2012, respectively.

Assets Limited As to Use Under Debt Financing Arrangements

Assets limited as to use under debt financing arrangements are invested in fixed income securities and are carried at fair value. Income from assets limited as to use is recognized in the accompanying consolidated statement of activities with return on long-term investments.

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Investments

The majority of the School's investments, with the exception of real estate-related amounts due from or invested in affiliate (see Note 5) and approximately $27.6 million and $30.2 million at December 31, 2013 and 2012, that are separately invested funds, are in a pooled investment portfolio maintained for the benefit of the Hospital, the Medical Center and the School.

Investments consist of cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value based on independent published sources (quoted market prices).

Alternative investments (nontraditional, not readily marketable securities) may consist of equity, debt and derivatives both within and outside the U.S. in multi-strategy hedge funds, event-driven strategies, global investment mandates, distressed securities and private funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments by members of the investment pool for alternative investments aggregated approximately $46.2 million at December 31, 2013.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities and interests in other alternative investments. The School may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which the pooled investment capital may be divested only at specified times. The liquidity restrictions range from several months to ten years for certain private equity investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

Alternative investments are stated in the accompanying consolidated statements of financial position at fair value, as estimated in an unquoted market. Fair value is determined by the School's management for each investment based upon net asset values derived from the application of the equity method of accounting, as a practical expedient. Financial information used by the School to evaluate its alternative investments is provided by the respective

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the School's annual financial statement reporting.

There is uncertainty in determining fair values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported in the accompanying consolidated statements of financial position might differ from the values that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonable possibility that estimates will change.

Investment Income

Investment income is allocated to investment pool participants using the market value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually and is based on total return. Realized gains and losses from the sale of securities are computed using the average cost method. The School also recognizes investment income (realized and unrealized) pertaining to investments held by the Medical Center on its behalf.

The total investment return (investment income and realized and unrealized gains and losses) is reflected in the accompanying consolidated statements of activities in two portions. The investment return allocated to operating revenues (revenue, gains, support and reclassifications) is determined by application of a 5% normal return to a three-year average market value of investments, excluding certain permanently restricted assets and certain other funds (the annual 5% endowment spending rate). In addition, actual investment earnings on short-term funds, principally trustee-held assets for construction projects, are included in operating revenues. The investment return classified outside of operating revenues represents the difference between the actual total investment return and the amount allocated to operating revenues.

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment, including leasehold improvements, are stated at cost; those acquired through contributions are stated at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operating results. Annual provisions for depreciation and amortization are made based upon the straight-line method over the estimated useful life of the assets ranging from 5 to 50 years. Fixed assets are written off when they are fully depreciated and no longer in use. Depreciation expense for the years ended December 31, 2013 and 2012, was $69.2 million and $56.4 million, respectively.

The School has entered into long-term leases with the Hospital relating to the portion of the Hospital-owned Annenberg and Guggenheim buildings used by the School. Under the leases, the School makes payments for its share of the buildings' operating expenses.

Deferred Financing Charges

Deferred financing charges, included within property, plant, and equipment in the accompanying consolidated statements of financial position, represent costs incurred to obtain financing for construction and renovation projects at the School. Amortization of these costs is provided using the effective interest method over the term of the applicable indebtedness. See Note 8 for additional information relative to debt-related matters.

Revenue Recognition

The School records grants and earned revenues on an accrual basis. In addition, the School records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give (pledges) and other assets. Conditional contributions, including grants for sponsored research, are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts and promises to give that are due in future years are discounted to present value.

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Contributions are reported as either temporarily or permanently restricted if they are received with donor-imposed stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions, including grants for sponsored research, whose restrictions and conditions are met within the same year as the contributions are received, are reflected in the activities of the unrestricted net asset class.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the School has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the School in perpetuity. Income earned therefrom is unrestricted or temporarily restricted based upon donors' stipulations.

Tax Status

The School, CCF, and the Mitral Foundation are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The School, CCF, and the Mitral Foundation are also exempt from New York State and City income taxes.

The Foundation recently filed Internal Revenue Service Form 1023 for recognition of income tax exemption under Section 501(c)(3) of the Code, which is pending approval.

The ACO is a single member limited liability company that is not recognized as a separate legal entity for tax purposes. The ACO is considered to be a disregarded entity for tax purposes. As a disregarded entity, the School is subject to unrelated business income taxation should the ACO's income be derived from activities unrelated to the School's exempt purpose.

Professional Liabilities

The undiscounted estimate of professional liabilities and the estimate for incidents that have been incurred but not reported is included in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately $130.9 million based on a discount rate of 3% at December 31, 2013 ($148.6 million at December 31, 2012). The School

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

has recorded related insurance recoveries receivable of the same amounts in consideration of expected insurance recoveries.

The School's estimate of professional liabilities is based upon complex actuarial calculations which utilize factors such as historical claims experience for the School and related industry factors, trending models, estimates for the payment patterns of future claims and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions of estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

2. Net Patient Care Services Revenue

Full-time faculty members may participate in the School's faculty practice plan, the activities of which are included in the accompanying consolidated statements of activities in net patient care services revenue. Plan participants are authorized to conduct a private practice and engage in professional consultation in accordance with established institutional guidelines. Professional service fee receipts are recorded and deposited in private practice funds established by the School for each individual participant or group practice when received by the School. Portions of these receipts are used to support School activities and to reimburse the School for indirect costs incurred in supporting plan activities. The remaining amounts, after direct plan expenses, provide participant salary supplements and support School departmental activities. The School participates in the Hospital's professional and general liability insurance programs.

A similar arrangement exists for School physicians at Elmhurst Hospital Center (Elmhurst) and Queens Hospital Center (Queens). These receipts are used to support certain services previously funded under agreements with New York City Health and Hospitals Corporation (HHC), provide salary supplements for physicians and support the School's departmental activities at Elmhurst and Queens.

The School's faculty practice plan has agreements with third-party payors that provide for payments to the plan. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges and fee-for-service. Net patient care service revenue and related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors and other for services rendered.

2. Net Patient Care Services Revenue (continued)

The current Medicaid, Medicare and other third-party payor programs in which the School and its faculty participate are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusions from such programs. The School is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

3. Pledges Receivable

Pledges receivable, representing unconditional promises to give to the School, recorded net of a present value discount (based on a range of interest rates of .13% to 8%) and valuation allowance, consist of the following (in thousands):

	December 31	
	2013	**2012**
Temporarily restricted	**$ 120,211**	$ 110,246
Permanently restricted	**18,384**	17,190
Unconditional promises to give before discount to present value and valuation allowance	**138,595**	127,436
Less present value discount and valuation allowance	**7,888**	9,229
Net pledges receivable	**$ 130,707**	$ 118,207

Pledges receivable are due to be collected over the following periods (in thousands):

	December 31	
	2013	**2012**
Within one year	**$ 36,955**	$ 31,215
One to five years	**88,619**	70,354
More than five years	**13,021**	25,867
Total pledges receivable	**$ 138,595**	$ 127,436

3. Pledges Receivable (continued)

The School is party to a pledge agreement of $150 million among the School, the Hospital, Carl C. Icahn (the Donor) and The Icahn Medical Research Foundation (the Icahn Foundation). The pledge will paid by the Donor to the Icahn Foundation solely for use by the Icahn Institute of Medical Research at Mount Sinai LLC (the MRO), a single member limited liability company of which the Icahn Foundation is the sole member, to conduct research in conjunction with the School and Hospital pursuant to terms of a collaboration agreement. The purpose of the collaboration agreement and the establishment of the MRO is to enable the School, the Hospital, the Icahn Foundation and the MRO to closely cooperate in a joint effort to conduct research in the fields of genomics, multi-scale biology and related matters. The pledge is not recorded in the accompanying consolidated financial statements.

4. Agreements With the New York City Health and Hospitals Corporation

Pursuant to various agreements with HHC, the School provides professional, medical and other services for the operations of Elmhurst and Queens. For services provided under the agreements, the School is reimbursed for costs incurred, plus overhead, but not in excess of amounts specified in the agreements. Certain costs are funded by the operations of faculty practice group arrangements at Elmhurst and Queens, which are independent of other School programs, under a letter of understanding with HHC.

The agreements with HHC do not permit the accrual of vacation and retirement benefits. The School would be liable for such benefits only upon termination of the agreements; however, the School’s liability would be limited upon termination of the agreements to amounts due based on benefits policies in effect at that time. No liability for such benefits has been recorded by the School.

The School’s arrangements with HHC are subject to final settlements based on future audits; however, the School anticipates that the effects of future final settlements will not be material.

5. Related Organizations

Amounts due (to) from the School's related organizations consisted of the following (in thousands):

	December 31	
	2013	**2012**
The Mount Sinai Medical Center, Inc.	**$ 2,405**	$ 1,833
MSMC Realty Corporation	**(20,299)**	(20,299)
The Mount Sinai Hospital	**(110,174)**	(82,111)
8 East 102nd Street LLC	**249**	–
Mount Sinai Health System, Inc.	**252**	–
Due to related organizations, net	**$ (127,567)**	$ (100,577)

Transactions charged (at cost) by the Hospital to the School totaled approximately $986.0 million and $896.1 million during the years ended December 31, 2013 and 2012, respectively. These transactions include payroll and benefits charges, approximately 91% in 2013 and 2012, of the respective totals, and approximately 9% in 2013 and 2012, related to various other shared services. Included in the benefits charges are certain employee health plan claims and premiums which are paid by the Hospital and, subsequently, charged to the School. Accordingly, the Hospital recognizes an actuarially determined liability for unreported health claims on behalf of the School. These claims are recorded as expenses in the School's consolidated statements of activities.

Additionally, the Hospital purchases professional services from the School for the clinical care of its patients, teaching and supervision of its residents, the performance of certain administrative functions, and various strategic initiatives. The Hospital paid approximately $189.4 million and $163.0 million in 2013 and 2012, respectively, for these services.

During 2003, as part of a financing transaction with the Hospital and MSMC Realty Corporation (Realty Corp.), a related entity, the School contributed to MSMC Residential Realty LLC (MSMCRRC), at net book value, property totaling approximately $55.8 million. MSMCRRC was incorporated in 2003 under the New York State Not-for-Profit Corporation Law for the sole purpose of supporting its member corporations by managing, maintaining, holding, developing, acquiring or disposing of real property for their benefit. MSMCRRC's members are the Hospital, the School, Realty Corp. and MSMC Residential Realty Manager, Inc.

5. Related Organizations (continued)

Property and equipment contributed by the Hospital, the School and Realty Corp. were used by MSMCRRC to secure $125.0 million in financing from a bank which was subsequently increased to $145.0 million as part of a refinancing in 2005. The total amount received by the School of approximately $34.4 million (comprised of $18.2 million used to repay the School's commercial paper program and a $16.2 million receivable after the initial financing), was based on the relative fair value of the property contributed, as compared to properties contributed by the Hospital and Realty Corp. that were part of the $125.0 million financing.

During 2006, the School received the remaining balance of the $16.2 million initially recorded as receivable and received additional amounts totaling $7.6 million through December 31, 2007. At December 31, 2008, these additional amounts were settled with the School through funding provided by Realty Corp. As a result of the funding provided by Realty Corp., the School has $20.3 million due to Realty Corp. at December 31, 2013 and 2012.

At December 31, 2008, the School had an interest in the fair value of the net assets of MSMCRRC of approximately $21.4 million, representing the excess of the carrying value of the property contributed over the amounts received. During 2009, MSMCRRC sold certain property and the School received approximately $42.0 million, including amounts distributed to the School by the Hospital and Realty Corp. $21.4 million of the amount received in 2009 reduced the carried interest in the fair value of MSMCRRC net assets. During 2012, the School received approximately $0.1 million in distributions from MSMCRRC, the Hospital and Realty Corp. (none in 2013).

Total assets and liabilities, at book value, of MSMCRRC are as follows (in thousands):

	December 31	
	2013	**2012**
Total assets	**$ 103,335**	$ 100,581
Total liabilities	**(150,940)**	(149,867)
Net deficit	**$ (47,605)**	$ (49,286)

In December 2001, Realty Corp. entered into a $16 million loan agreement with the New York City Industrial Development Agency ($11.9 million and $12.4 million outstanding balance at December 31, 2013 and 2012, respectively), which is collateralized by a bank letter of credit that is guaranteed by the School and the Medical Center. Under the terms of the debt agreements, the School is required to meet certain financial covenants. As of December 31, 2013 and 2012, the School was in compliance with these requirements.

5. Related Organizations (continued)

Summarized financial information for Realty Corp., in which the Hospital, the School and the Medical Center are members, at December 31 is as follows (in thousands):

	December 31 2013	December 31 2012
Total assets	**$ 26,344**	$ 26,785
Total liabilities	**(32,811)**	(33,252)
Net deficit	**$ (6,467)**	$ (6,467)

During 2010, 8 East 102nd Street LLC (the Company) was formed for the sole purpose of supporting its member corporation by managing, maintaining, holding, developing, acquiring or disposing of real property for its benefit. The Company's sole member is 8 East 102nd Street Manager LLC (the Manager). The members of the Manager are the Hospital, the School and the Medical Center. Through December 31, 2013, the School transferred approximately $138 million in capital expenditures for a residential tower project to the Company, which financed and owns a portion of the project.

On November 1, 2013, the members of the Manager, together with certain other persons, amended and restated the operating agreement of the Manager and elected for the Manager to be taxed as a real estate investment trust (the REIT) for U.S. Federal income tax purposes, effective January 1, 2014. As a result, the members will own 99% of the partnership units of the REIT; 125 investors each purchased preferred shares of the Manager for $1,000 each.

The School, the Hospital and the Medical Center, as members of the Manager, have agreed to distribute the net activities of the Manager (which, as the sole member of the Company, reflects the net activities of the Company) solely to the School. This agreement includes equity in income or loss of the Manager, as well as cash distributions. Accordingly, in the accompanying financial statements, the School has recognized equity in loss of related party of approximately $8.1 million, related to the accumulated net deficit of the Manager as of December 31, 2013. In 2013, the Manager distributed to the Hospital, the School and the Medical Center approximately $1.8 million of cash derived from the net activities of the Company; the total amount was ultimately transferred to the School.

5. Related Organizations (continued)

Summarized financial information for the Company is as follows at December 31 (in thousands):

	December 31	
	2013	**2012**
Total assets	**$ 136,827**	$ 145,819
Total liabilities	**(146,733)**	(149,070)
Accumulated deficit	**$ (9,906)**	$ (3,251)

6. Investments

Total investments for the School are maintained as follows (in thousands):

	December 31	
	2013	**2012**
Pooled investments	**$ 691,221**	$ 630,518
Non-pooled investments (marketable and nonmarketable, net)	**27,559**	30,172
	$ 718,780	$ 660,690

6. Investments (continued)

The School's allocation of pooled investment holdings as of December 31, 2013 and 2012, is summarized as follows (in thousands):

	December 31 2013	December 31 2012
Cash and cash equivalents	**$ 14,878**	$ 5,977
Fixed income:		
Corporate bonds	**8,866**	13,716
U.S. government	**102**	117
Equities:		
U.S. equities	**43,819**	31,630
Global equities	**16,619**	–
Non-U.S. equities	**46,592**	16,073
Alternative investments:		
Hedge funds:		
Long-only equity	**54,349**	32,316
Hedged equity[a]	**100,493**	94,926
Long/short credit[b]	**21,254**	33,941
Multi-strategy[c]	**76,780**	73,053
Open mandate[d]	**143,661**	130,956
Macro[e]	**62,105**	69,327
Real assets[f]	**–**	17,991
Private equity:		
Equity[g]	**21,585**	28,776
Credit/distressed[h]	**68,743**	66,925
Real assets[i]	**11,375**	14,794
	$ 691,221	$ 630,518

6. Investments (continued)

The following table summarizes the composition of the total investment pool at carrying value (in thousands); the School's interests in the pooled investment components are proportionate based on the ratio of its pooled investment balance to the total of the pool.

	December 31	
	2013	**2012**
Cash and cash equivalents	**$ 29,779**	$ 11,060
Fixed income:		
Corporate bonds	**17,745**	25,380
U.S. government	**204**	216
Equities:		
U.S. equities	**87,704**	58,530
Global equities	**33,265**	–
Non-U.S. equities	**93,259**	29,742
Alternative investments:		
Hedge funds:		
Long-only equity	**108,785**	59,800
Hedged equity[a]	**201,144**	175,656
Long/short credit[b]	**42,541**	62,807
Multi-strategy[c]	**153,681**	135,181
Open mandate[d]	**287,546**	242,331
Macro[e]	**124,308**	128,287
Real assets[f]	**–**	33,291
Private equity:		
Equity[g]	**43,204**	53,249
Credit/distressed[h]	**137,594**	123,843
Real assets[i]	**22,768**	27,375
	$ 1,383,527	$ 1,166,748

[a] Investments consisting primarily of publicly traded equity holdings with both long and short positions.

[b] Investments consisting primarily of publicly traded credit holdings with both long and short positions.

6. Investments (continued)

[c] Investments with lower correlations to stock and bond markets with a balanced mix of assets and strategies. Underlying exposures primarily include publicly traded equity and credit positions in event-driven, relative value and various arbitrage strategies.

[d] Investments with lower correlations to stock and bond markets. Underlying exposures primarily include publicly traded equity and credit positions with a fundamental value bias. Portfolios may reflect a tilt towards equity or credit positions, involve portfolio level hedging, and hold large cash positions if value opportunities are not found.

[e] Investments focused on global macro dislocations rather than micro driven opportunities. Holdings are both long and short in equity, fixed income, currency, and futures markets.

[f] Investments in publicly traded commodity linked exposures.

[g] Investments targeting buyout and growth equity opportunities that require time to reach realization.

[h] Investments in structured credit, claims, distressed positions of either a minority or controlling interest that require time to reach realization.

[i] Real estate and natural resources investments that require time to reach realization.

The return on pooled investments comprises the following for the years ended December 31 (in thousands):

	Year Ended December 31	
	2013	**2012**
Interest and dividend income	**$ 3,605**	$ 2,465
Net realized gains on sales of securities	**50,766**	49,184
Change in net unrealized gains and losses	**130,242**	66,822
Fees and other expenses	**(3,768)**	(2,597)
Total	**$ 180,845**	$ 115,874

6. Investments (continued)

The School was allocated a total return from the pool based on agreements among the pool participants and donor stipulations of approximately $102.9 million and $70.4 million for 2013 and 2012, respectively.

Total investment returns recognized by the School include amounts allocated by the Hospital and comprise the following (in thousands):

	Year Ended December 31	
	2013	**2012**
Interest and dividend income	**$ 2,427**	$ 1,528
Net realized gains on sales of securities	**28,987**	29,274
Change in net unrealized gains and losses	**70,582**	37,918
Total return allocated by the Hospital	**4,054**	3,889
Fees and other expenses	**(2,434)**	(1,611)
Total	**$ 103,616**	$ 70,998

7. Property, Plant, and Equipment

A summary of property, plant, and equipment is as follows (in thousands):

	December 31	
	2013	**2012**
Land	**$ 11,012**	$ 11,012
Buildings and improvements	**1,005,791**	502,522
Furniture, fixtures, and equipment	**298,252**	273,884
Leasehold interest and improvements	**171,991**	171,991
Deferred financing charges, net	**10,593**	11,676
	1,497,639	971,085
Less accumulated depreciation and amortization	**(587,749)**	(518,544)
	909,890	452,541
Capital projects in progress	**39,759**	462,889
	$ 949,649	$ 915,430

7. Property, Plant, and Equipment (continued)

During 2013, approximately $489 million of project costs were placed into service for the completion of the Leon and Norma Hess Center for Science and Medicine (CSM).

The School has entered into lease agreements with the Hospital relating to portions of the School-owned Icahn Medical Institute and the Center for Advanced Medicine (CAM) which are used by the Hospital. The School has reflected the amount paid by the Hospital related to its leasehold interests ($11.8 million and $4.7 million for each building, respectively) as a reduction of its cost. Additionally, the Hospital pays the School for its share of operating expenses under the terms of the lease agreements as follows (in thousands):

	Year Ended December 31	
	2013	**2012**
Icahn Medical Institute	**$ 4,796**	$ 4,984
Center for Advanced Medicine	**2,840**	2,842
	$ 7,636	$ 7,826

Future minimum rental payments due from the Hospital under the leases are approximately $7.4 million in 2014, $7.2 million in 2015, $7.0 million in 2016, $6.8 million in 2017, $6.6 million in 2018 and $66.6 million thereafter.

Assets under capital leases approximate $15.5 million and $15.3 million at December 31, 2013 and 2012, respectively, and are included in furniture, fixtures and equipment ($4.8 million and $6.2 million for 2013 and 2012 respectively, net of accumulated amortization).

The School capitalizes costs incurred in connection with the development of internal-use software or purchased software modified for internal use. The costs are amortized over estimated useful lives ranging from five to seven years. At December 31, 2013 and 2012, total capitalized costs of approximately $12.2 million and $15.4 million, respectively, net of accumulated amortization, are included in furniture, fixtures, and equipment.

8. Long-Term Debt and Related Assets

At December 31, 2013 and 2012, the School had outstanding long-term debt used to finance a variety of projects, including a modernization and capital improvement program, the construction of CSM, the Icahn Medical Institute and the CAM. Outstanding long-term debt comprised the following (in thousands):

	December 31	
	2013	**2012**
Dormitory Authority of the State of New York (the Authority) debt consisting of:		
• Bonds payable (including unamortized original issue premium of $4,718); maturing through 2021 with interest rates varying from 4.00% to 5.00% per annum. (Series 2010A bonds)	**$ 80,609**	$ 89,343
• Bonds payable (including unamortized original issue discount of $3,491); maturing through 2039 with interest rates varying from 4.00% to 5.50% per annum. (Series 2009 bonds)	**366,424**	366,219
• Bonds payable (including unamortized original issue premium of $3,459); maturing through 2037 with interest rates varying from 4.00% to 5.00% per annum. (Series 2007 bonds)	**119,633**	120,745
• Bonds payable (including unamortized original issue premium of $162); maturing through 2015 with interest rates varying from 3.25% to 5.25% per annum. (Series 2003 bonds)	**15,517**	22,829
• Bonds payable (net of unamortized original issue discount of $222); maturing through 2024 with interest rates varying from 5.00% to 5.15% per annum. (Series 1994A bonds)	**39,353**	39,329
• Authority tax-exempt leasing program loans due in monthly installments of $397, with interest rate of 1.135% through December 2018	**23,138**	27,610
Capital leases, monthly installments of $40 through 2017	**2,409**	3,861
	$ 647,083	$ 669,936

During 2012, the School entered into a tax-exempt leasing program with the Authority as the lessee and Bank of America Public Capital Corp. as the lessor for approximately $27.6 million, with the intention for the proceeds to be used to finance research and clinical equipment. Proceeds from the leasing program were deposited into an escrow account which will be reimbursed to the School as approved capital expenditures are incurred. The amount on deposit of $7.5 million at December 31, 2013 is included in assets limited as to use under debt financing arrangements in the accompanying statements of financial position ($27.6 million at December 31, 2012).

8. Long-Term Debt and Related Assets (continued)

Long-term debt due to the Authority is collateralized by a pledge and assignment of certain gross revenues, as defined by the loan agreements, generated by the School's faculty practice associates plan, all funds and accounts authorized under the loan agreements, and the amounts deposited in the debt service reserve funds.

At December 31, 2013, the School has commitments of approximately $41.8 million related to capital projects.

During 2013, the School transferred approximately $21.5 million in capital expenditures to the Hospital for the CSM and Residential Tower project ($49.2 million in 2012). The School intends to transfer an additional $4.1 million to the Hospital in 2014. The School will record the Hospital's leasehold interest as a reduction in cost.

In connection with its long-term debt, the School has agreed to maintain certain financial ratios, including a debt service coverage ratio. At December 31, 2013 and 2012, the School was in compliance with the required financial ratios.

As of December 31, 2013, principal payments under long-term indebtedness and future minimum payments under capitalized leases for the next five fiscal years and thereafter are as follows (in thousands):

	Long-Term Debt	Capitalized Leases
2014	$ 20,903	$ 1,239
2015	21,690	810
2016	23,197	421
2017	24,155	77
2018	25,143	–
Thereafter	524,960	–
	640,048	2,547
Interest	–	(138)
	$ 640,048	$ 2,409

8. Long-Term Debt and Related Assets (continued)

Interest expense for all debt aggregated approximately $31.1 million and $12.1 million for the years ended December 31, 2013 and 2012, respectively. Capitalized interest of $0.9 million and $19.6 million was recorded for the years ended December 31, 2013 and 2012, respectively.

Assets limited as to use under debt financing arrangements (primarily U.S. Government obligations) consisted of (in thousands):

	December 31	
	2013	**2012**
Construction proceeds funds	**$ 7,516**	$ 27,712
Debt service reserve funds	**60,350**	60,391
Debt service funds	**23,917**	23,795
Capital interest funds	**–**	2
	$ 91,783	$ 111,900

9. Perkins Loan Program

The School participates in the Perkins Loan Program (the Program) sponsored by the United States Department of Education (the DOE). The Program advances funds to the School which the School loans to students. The School is required to match a percentage of the advanced funds. The School selects student participants in the Program based on financial need and other eligibility requirements set by the Program. Principal and interest collected by the School are used to fund additional loans. Interest earned and expenses incurred by the School in conducting the Program are allocated between government advances and the School's operations based on the proportion of contributions made by the School and the DOE since the inception of the Program at the School. The aggregate amount of the DOE's net participation in the Program (net advances to the School) is reflected as a liability within federal loan capital advances in the accompanying consolidated statements of financial position.

10. Employee Relocation Loan Program

The School maintains an employee relocation loan program whereby the School participates in a portion of the financing of the primary residence mortgage of eligible faculty members. All taxes, insurance and repair and maintenance costs of the residence are the responsibility of the

10. Employee Relocation Loan Program (continued)

faculty members. If the faculty member's employment is terminated before the mortgage is repaid, the faculty member may purchase the School's share of the equity and assume the remainder of the School's mortgage obligation on the property, or the residence will be sold in accordance with the employee relocation loan program agreement and the School will be entitled to a portion of the proceeds. The School's participation in this program aggregated approximately $49.7 million and $44.2 million at December 31, 2013 and 2012, respectively.

11. Other Postretirement Benefits

In addition to the School's pension plans (see Note 14), the School provides health care and life insurance benefits to its retired employees if they reach normal retirement age while still working for the School. The School accrues the obligation to provide postretirement health care and other welfare benefits during the years in which employees provide service. The School-sponsored defined benefit plan provides postretirement medical and life insurance benefits to full-time employees who have worked ten years and attained the age of 62 while in service with the School. The plan contains cost-sharing features such as deductibles and coinsurance.

In fiscal 2004, management curtailed the benefits available under the School's postretirement health benefit plan. Employees who would be eligible for postretirement health benefits are only those persons who were 50 years of age or older with 10 years of service as of January 1, 2004, or employees with 20 years of service as of January 1, 2005.

The School recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree benefits, with a corresponding adjustment to unrestricted net assets for the portion of the unfunded liability that has not been recognized as cost. The adjustment to unrestricted net assets represents the net unrecognized actuarial losses and unrecognized prior service cost, which will be recognized subsequently as a component of net periodic benefit cost through amortization.

11. Other Postretirement Benefits (continued)

The following tables provide a reconciliation of the changes in the plan's benefit obligation and a statement of the funded status of the plan (in thousands):

	December 31	
	2013	**2012**
Reconciliation of the benefit obligation		
Obligation at January 1	**$ 12,965**	$ 12,940
Service cost	**55**	61
Interest cost	**457**	532
Actuarial (gain) loss	**(991)**	298
Benefit payments	**(1,128)**	(866)
Obligation at December 31	**$ 11,358**	$ 12,965
Funded status		
Funded status at December 31	**$ 11,358**	$ 12,965
Net amount recognized	**$ 11,358**	$ 12,965

The following table provides the components of the net periodic benefit cost for the plan (in thousands):

	Year Ended December 31	
	2013	**2012**
Service cost	**$ 55**	$ 61
Interest cost on projected benefit obligation	**457**	532
Amortization	**(9)**	70
Net periodic benefit cost	**$ 503**	$ 663

The weighted-average discount rate used in the measurement of the School's benefit obligation was 4.61% and 3.75% at December 31, 2013 and 2012, respectively. The weighted-average discount rate used in the measurement of net periodic benefit cost was 3.75% and 4.4% for the years ended December 31, 2013 and 2012, respectively.

11. Other Postretirement Benefits (continued)

For measurement purposes relative to 2013, an annual rate of increase in the per capita cost of covered health care benefits was assumed to be 7.6%, grading down to an ultimate rate of 5.0% in 2017. A 5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013. The measurement date is December 31.

Assumed health care cost trend rates have a significant effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects (in thousands):

	2013		**2012**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	(In Thousands)			
Effect on total of service and interest cost components of net periodic benefit cost	**$ 5**	**$ (5)**	$ 7	$ (6)
Effect on the health care component of the accumulated benefit obligation	**131**	**(121)**	159	(146)

Cash Flows

Contributions: The School expects to contribute $1.0 million for the postretirement medical and life insurance plan in 2014.

Estimated future benefit payments: The School expects to pay the following postretirement benefit payments, which reflect future service, as appropriate (in thousands):

2014	$ 1,066
2015	1,089
2016	1,094
2017	1,082
2018	1,050
2019 to 2023	4,531

12. Temporarily Restricted and Permanently Restricted Net Assets

Permanently restricted net assets represent endowments that have been restricted by donors to be maintained in perpetuity by the School. The School follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanently restricted contributions and net assets, effective upon New York State's enactment of the legislation in September 2010.

The School has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the School and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the School; and (8) the investment and spending policies of the School. The School's policies provide the guidelines for setting the annual spend rate (5%) and the treatment of any investment returns in excess of the annual spend rate. The endowment spend rate is calculated on the average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to the endowed fund and classified as temporarily restricted net assets, unless also appropriated for expenditure.

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner and adhere to the established guidelines.

12. Temporarily Restricted and Permanently Restricted Net Assets (continued)

To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School appropriately diversifies its assets to provide for capital preservation and inflation risk protection while maintaining market exposure.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the original principal donation. These deficiencies could result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs deemed prudent by the Board of Trustees. There were no deficiencies of this nature that are reported in unrestricted net assets as of December 31, 2013 and 2012.

Temporarily restricted net assets are available to support program activities as stipulated by donors. Permanently restricted net assets are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. The School's temporarily and permanently restricted net assets support the following activities (in thousands):

	December 31, 2013	
Category	**Temporarily Restricted**	**Permanently Restricted**
Professorships	**$ 22,648**	**$ 142,936**
Faculty fellowships	**16,133**	**17,352**
Lectures and prizes	**6,587**	**7,214**
Scholarships and loans	**50,753**	**39,105**
Research centers	**4,384**	**56,435**
Research, instruction, and operations, including capital projects	**256,965**	**115,454**
	$ 357,470	**$ 378,496**

12. Temporarily Restricted and Permanently Restricted Net Assets (continued)

Category	December 31, 2012 Temporarily Restricted	December 31, 2012 Permanently Restricted
Professorships	$ 14,600	$ 135,266
Faculty fellowships	13,143	17,368
Lectures and prizes	5,330	6,923
Scholarships and loans	42,880	36,219
Research centers	2,524	56,434
Research, instruction, and operations, including capital projects	236,873	110,322
	$ 315,350	$ 362,532

Changes in endowment assets (permanent endowment and funds functioning similarly) for the years ended December 31, 2013 and 2012, were as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Net assets at January 1, 2013	**$ 73,673**	**$ 346,320**	**$ 419,993**
Total investment return	**37,779**	**–**	**37,779**
Contributions	**–**	**14,620**	**14,620**
Appropriation of endowment assets for expenditure	**(11,870)**	**–**	**(11,870)**
Net assets at December 31, 2013	**$ 99,582**	**$ 360,940**	**$ 460,522**

	Temporarily Restricted	Permanently Restricted	Total
Net assets at January 1, 2012	$ 60,624	$ 330,023	$ 390,647
Total investment return	24,040	–	24,040
Contributions	–	16,297	16,297
Appropriation of endowment assets for expenditure	(10,991)	–	(10,991)
Net assets at December 31, 2012	$ 73,673	$ 346,320	$ 419,993

12. Temporarily Restricted and Permanently Restricted Net Assets (continued)

Net assets were released from restrictions in satisfaction of the following restrictions (in thousands):

	Year Ended December 31	
	2013	**2012**
Instruction	**$ 3,354**	$ 3,170
Research	**42,449**	2,246
	$ 45,803	$ 5,416

13. Sponsored Research

Research grants and contracts generally provide for the recovery of direct and indirect costs. The School recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is recorded using facilities and administrative rates negotiated with the federal government and other sponsors. Certain School clinical research programs are conducted in Hospital facilities. Direct expenditures under federal research projects totaled approximately $195.7 million and $193.6 million for the years ended December 31, 2013 and 2012, respectively. The School's principal source of federal research funds is the U.S. Department of Health and Human Services. Research grants and contracts awarded but not yet recorded approximated $212.3 million and $205.3 million as of December 31, 2013 and 2012, respectively.

14. Pension and Similar Plans

Through participation in the Hospital's pension plan, the School provides pension and similar benefits to administrative service employees through several defined benefit multiemployer union plans and immediate vesting tax-sheltered annuity plans. Contributions to the defined benefit multiemployer union plans are made in accordance with contractual agreements under which contributions are generally based on salaries. Payments to the tax-sheltered annuity plans are generally based on percentages of annual salaries. It is the School's policy to fund accrued costs under these plans on a current basis. The School's pension expense under all existing plans for the years ended December 31, 2013 and 2012 aggregated approximately $28.6 million and $28.7 million, respectively.

14. Pension and Similar Plans (continued)

Additionally, the Hospital and the School jointly offer a 457(b) plan to certain of their respective employees. Contributions are made solely by the employees through their payroll deductions. The contributions are maintained in individual participant accounts held by a custodian and remain an asset of the employer until the participant retires. A corresponding liability is also recorded for these amounts to be reduced upon the participant's retirement. At December 31, 2013 and 2012, the School has included approximately $32.4 million and $24.8 million in investments and accrued salaries, wages and related liabilities in its consolidated statements of financial position related to the 457(b) plan.

15. Commitments and Contingencies

In 2010 and 2011, the School entered into multiple letters of credit and reimbursement agreements with a commercial bank for a combined total of approximately $0.6 million and $2.7 million, respectively. The bank agreed to issue direct-pay letters of credit for litigation costs that might be incurred by the School concerning infringement of a patent owned by the School. No advances were made on the letters of credit. The litigation was settled on May 9, 2012, resulting in favorable judgment for the School in the amount of $46.5 million, which is recorded in the accompanying consolidated financial statements in royalty revenue. The letters of credit were released upon the litigation settlement.

In 2010, the School entered into a $1.0 million letter of credit and reimbursement agreement with a commercial bank pursuant to which the bank agreed to issue a direct-pay letter of credit to ensure the performance and completion guarantee in connection with the CSM building construction project. In 2013, the letter of credit was reduced to $0.1 million. No advances were made on the letter of credit as of December 31, 2013 or 2012.

The School is a defendant in various legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. School management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on the School's consolidated financial position.

Operating Leases

The School leases various equipment and facilities under operating leases expiring at various dates through 2018 and thereafter. Total rental expense charged to operations during the years ended December 31, 2013 and 2012, was approximately $18.4 million and $17.4 million, respectively.

15. Commitments and Contingencies (continued)

Future minimum payments required under noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2013 (in thousands):

2014	$	12,547
2015		7,133
2016		3,797
2017		2,867
2018		2,725
2019 and thereafter		8,248
	$	37,317

16. Fair Value Measurements

For assets and liabilities requiring fair value measurement, the School measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The School follows a fair value hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the School uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value.

16. Fair Value Measurements (continued)

Financial assets carried at fair value by the School as of December 31, 2013, are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 93,980	$ –	$ –	$ 93,980
Assets limited as to use –				
U.S. government obligations	–	91,783	–	91,783
Fixed income:				
Corporate bonds	8,866	–	–	8,866
U.S. government	102	–	–	102
Equities:				
U.S. equities	43,819	–	–	43,819
Global equities	16,619	–	–	16,619
Non-U.S. equities	27,447	19,145	–	46,592
Alternative investments:				
Hedge funds:				
Long only equity	–	40,247	14,102	54,349
Hedged equity	–	82,566	17,927	100,493
Long/short credit	–	21,254	–	21,254
Multi-strategy	–	76,780	–	76,780
Open mandate	–	143,661	–	143,661
Macro	–	62,105	–	62,105
Private equity:				
Equity	–	–	21,585	21,585
Credit/distressed	–	–	68,743	68,743
Real assets	–	–	11,375	11,375
Other investments	882	–	26,677	27,559
	$ 191,715	$ 537,541	$ 160,409	$ 889,665

16. Fair Value Measurements (continued)

Financial assets carried at fair value by the School as of December 31, 2012, are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 88,871	$ –	$ –	$ 88,871
Assets limited as to use –				
U.S. government obligations	–	111,900	–	111,900
Fixed income:				
Corporate bonds	13,716	–	–	13,716
U.S. government	117	–	–	117
Equities:				
U.S. equities	31,630	–	–	31,630
Non-U.S. equities	–	16,073	–	16,073
Alternative investments:				
Hedge funds:				
Long only equity	–	32,316	–	32,316
Hedged equity	–	79,252	15,674	94,926
Long/short credit	–	33,941	–	33,941
Multi-strategy	–	73,053	–	73,053
Open mandate	–	130,956	–	130,956
Macro	–	69,327	–	69,327
Real assets	–	–	17,991	17,991
Private equity:				
Equity	–	–	28,776	28,776
Credit/distressed	–	–	66,925	66,925
Real assets	–	–	14,794	14,794
Other investments	1,317	–	28,855	30,172
	$ 135,651	$ 546,818	$ 173,015	$ 855,484

16. Fair Value Measurements (continued)

The following is a summary of investments (by major category) with restrictions on the investment pool's ability to redeem its investments at the measurement date, any unfunded capital commitments and investments strategies of the investees as of December 31, 2013 (in thousands):

Description of Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Funds Availability
Hedge funds:					
Long-only equity	$ 108,785	$ –	Quarterly/annually	30 to 90 days	30 days
Hedged equity	201,144	–	Quarterly/rolling three years	45 to 60 days	30 days
Long/short credit	42,541	–	Quarterly/annually	90 days	30 days
Multi-strategy	153,681	–	Quarterly/annually	45 to 90 days	30 days
Open mandate	287,546	–	Monthly/annually	60 to 180 days	15 to 30 days
Macro	124,308	–	Monthly/quarterly	30 to 90 days	20 to 30 days
Private investments:					
Equity	43,204	18,072	N/A	N/A	N/A
Credit/distressed	137,594	26,579	N/A	N/A	N/A
Real assets	22,768	1,580	N/A	N/A	N/A
	$ 1,121,571	$ 46,231			

The following is a description of the School's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Level 3 assets consist primarily of alternative investments, the valuation for which is described in Note 1. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

16. Fair Value Measurements (continued)

The following table is a rollforward of the consolidated statement of financial position amounts for financial instruments classified by the School in Level 3 of the valuation hierarchy defined above (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Alternative Investments	**Other Investments**	**Total**
Fair value at January 1, 2012	$ 111,344	$ 24,438	$ 135,782
Total realized and unrealized gains and losses	14,155	4,667	18,822
Purchases, sales, issuances and settlements, net	18,661	(250)	18,411
Fair value at December 31, 2012	$ 144,160	$ 28,855	$ 173,015
Change in unrealized gains and losses related to financial instruments held at December 31, 2012	$ 4,283	$ 4,667	$ 8,950
Fair value at January 1, 2013	**$ 144,160**	**$ 28,855**	**$ 173,015**
Total realized and unrealized gains and losses	**18,967**	**(2,254)**	**16,713**
Purchases, sales, issuances and settlements, net	**(29,395)**	**76**	**(29,319)**
Fair value at December 31, 2013	**$ 133,732**	**$ 26,677**	**$ 160,409**
Change in unrealized gains and losses related to financial instruments held at December 31, 2013	**$ 10,738**	**$ (2,254)**	**$ 8,484**

The carrying values and fair values of the School's financial instruments that are not required to be carried at fair value at December 31, 2013 and 2012, are as follows (in thousands):

	2013		**2012**	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Loans receivable	**$ 76,715**	**$ 76,715**	$ 71,314	$ 71,314
Employee relocation loan program	**49,668**	**49,668**	44,160	44,160
Long-term debt, excluding capital leases	**668,098**	**644,674**	679,248	666,075

16. Fair Value Measurements (continued)

The fair value of loans receivable and employee relocation loans approximate carrying value as the loans generally bear interest at market rates. They are classified as Level 2 in the fair value hierarchy. The fair value of long-term debt is based on quoted market prices and is classified as Level 1 in the fair value hierarchy.

17. Multiemployer Pension Plan

The School contributes to one multiemployer defined benefit pension plan under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in the multiemployer plan are different from single-employer plans in the following aspects:

(a) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

(c) If an employer chooses to stop participating in some of its multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The School's participation in the plan for the year ended December 31, 2013, is outlined in the table below. The "EIN Number" column provides the Employer Identification Number (EIN). Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2013 and 2012 is for a plan's year end at December 31, 2012 and 2011, respectively. The zone status is based on information that the School received from the plan and is certified by the plan's actuaries. Among other factors, a plan in the red zone is generally less than 65% funded, a plan in the yellow zone is less than 80% funded, and a plan in the green zone is at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates the plan for which a

17. Multiemployer Pension Plan (continued)

financial improvement plan (FIP) or a rehabilitation plan (RP) is pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject. There have been no significant changes that affect the comparability of 2013 and 2012 contributions.

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status 2013	Pension Protection Act Zone Status 2012	FIP/ RP Status Pending/ Implemented	Contributions by the School 2013	Contributions by the School 2012	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
						(In Thousands)			
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	Green as of 1/01/2013	Green as of 1/01/2012	No	$2,266	$2,029	No	04/30/2015

18. Subsequent Events

For purposes of the accompanying consolidated financial statements, the School has considered for accounting and disclosure events that occurred through March 28, 2014, the date the consolidated financial statements were issued. There were no subsequent events or transactions which either resulted in recognition in the accompanying consolidated financial statements or required additional disclosure.

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